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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM

(16 June - 26 June 1966)

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I. POLITICAL SITUATION

The Buddhist capability for street agitation was nearly eliminated last week as the Ky government completed its sweep of Hue and other northern towns, moved dissident leaders to Saigon, and cleared the Buddhist Institute in the capital. Scattered Buddhist protests continue, however, despite both a major reduction in Buddhist political assets in central Vietnam and a serious policy split within the Buddhist leadership in Saigon. Government leaders, while celebrating their first anniversary in office, are playing down their difficulties with the Buddhists and turning their attention to other matters.

Developments in I Corps

1. Most overt manifestations of the "struggle" movement have now been eliminated in Hue. However, following a government "reoccupation" of the city which began on 16 June, US observers have reported that many political, psychological, and administrative actions need to be taken there before government authority can be consolidated. Among other things, the government is planning to keep police field forces in the city for several months while local police are reorganized. Several persons under arrest may be tried and sentenced to death for their antigovernment activities. Some of the government's regional offices now in Hue may be shifted to Da Nang in the near future.

2. Militant bonze Tri Quang was transported from Hue to Saigon during the week by government police. He was installed in a clinic where he was reportedly continuing his hunger strike as of 26 June. Police maintained that Quang was not under arrest, but did screen his visitors. After conferring with several institute monks including Tam Chau, Quang reportedly announced that he would maintain his opposition to the government. However, the courses of action immediately available to him appear rather limited.

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3. In a roundup of military dissidents, generals Dinh and Nhuan were moved from Hue to Saigon by the government. Former I Corps commander General Thi was also expected to arrive voluntarily in the capital soon. Although the futures of these and possibly two other generals--Chuan and Cao--are not yet clear, a high-ranking Vietnamese officer maintained that they will either be retired or more severely punished.

4. In addition to the arrests and transfers of civilian and military officials involved in the "struggle" movement, the government further reduced Buddhist political assets in central Vietnam by moving forces into the capitals of Quang Tri and Binh Dinh provinces last week to quell antigovernment elements. Nevertheless, sporadic hunger strikes, demonstrations, and one additional suicide occurred in various towns throughout I and II Corps.

Saigon Buddhist Institutes Raided

5. After the suspected killer of a policeman took refuge in the Buddhist Institute on 18 June, police blockaded the premises, and finally on 23 June raided the institute. Most of the 500 persons taken into custody were released later in the day after identification checks; some youths were held for induction into the armed forces or for later trials for antigovernment activities. The suspect was apprehended and reportedly confessed to the killing.

6. Although the government had apparently planned to return control of the institute to chairman Tam Chau after its clearing operation was completed, Chau in a public communique condemned the government raid. He suggested that the sanctity of the pagoda had been destroyed and that the government would henceforth be held responsible for maintaining the buildings and the grounds of the institute.

7. On 26 June, a second Buddhist pagoda was raided by government police and ARVN rangers, and one weapon was captured and 15 draft-age youths were arrested. No monks were reported to have been mistreated and no reaction has been forthcoming from Buddhist leaders.

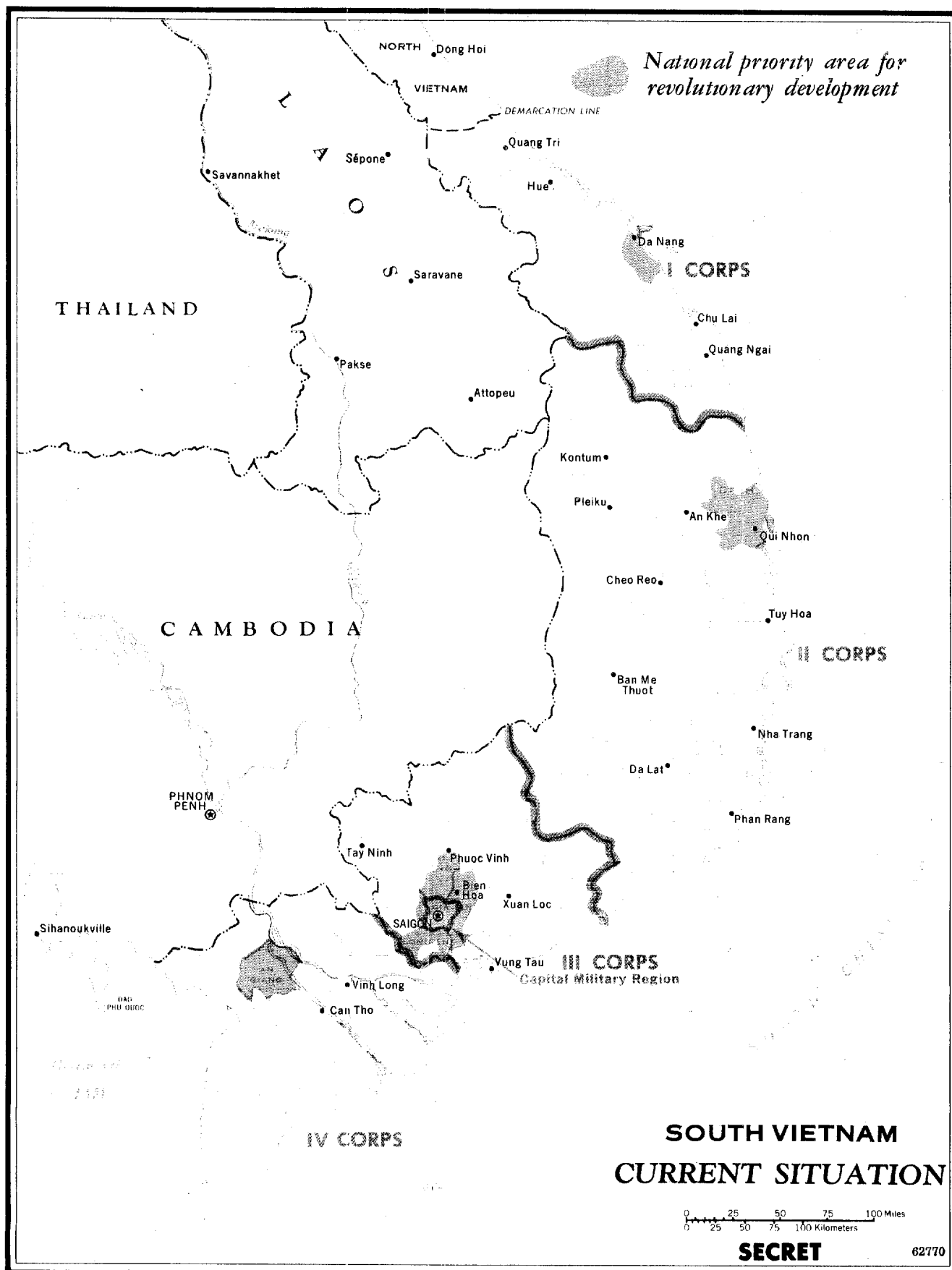
Policy Differences Within Buddhist Leadership

8. Tam Chau's strong criticism followed several days during which he had been attempting to end once and for all the confrontation between the Buddhists and the government by securing an amnesty pledge from the government for all those involved in Buddhist agitation. His criticism, however, may only be a move designed to strengthen his support among other monks in the institute. Chau had lost control over institute policy to the militant wing during the previous week, and he does not appear to have regained it.

9. Despite the current policy split among Buddhist leaders and the quelling of the "struggle" movement, it is rather doubtful that Buddhist political influence will remain at its current low level as long as leaders of the caliber of Tri Quang, Tam Chau, and Thien Minh remain active. In addition, lingering resentment of the Ky government in the northern towns and a general lack of positive support for the Saigon government may provide opportunities for future Buddhist maneuvering.

Ky Government Buoyed by Success

10. Generally declaring that the antigovernment problem had been "solved," Premier Ky and other government leaders turned their attentions to a celebration of the government's first anniversary on 19 June. Buoyed by its success in overcoming the "struggle" movement, the government appears relatively unified at present, even though the impetus for its forceful move against the dissidents came from a relatively small hard-line faction within the armed forces. A relaxation over a continuing period of time, however, could reopen splits between previously well-defined military cliques.



II. REVOLUTIONARY DEVELOPMENT

The second cadre group training class began on 13 June for approximately 5,200 personnel. Progress during the month of May in the four National Priority Areas ranged from a complete standstill in I Corps to projects ahead of schedule in An Giang Province. The defector rate, which is slowly rising, should receive a boost in response to increased military contacts and a largely resolved political situation.

Cadres

1. The second training class for revolutionary development cadre groups began on 13 June at the Vung Tau National Cadre Training Center. Approximately 5,200 trainees will participate in the 13-week course. This class is heavily weighted toward the training of the census-grievance, civil affairs, and new life hamlet specialist groups to augment the numerous Peoples Action Teams (PAT) already in the provinces. Nearly half of the new trainees were drawn from pacification cadres who were working under the old GVN provincial programs. The remainder of the trainees are new recruits.

2. One of the improvised revolutionary development teams working in a hamlet in Bien Hoa Province in early May utilized an interesting ploy to confuse a Viet Cong platoon that was attempting to enter the hamlet at night. The team members, dressed similar to and living among the hamlet inhabitants, could not be identified as a group by the Viet Cong. When the team members directed harassing fire at the enemy unit, it became confused and withdrew. The Viet Cong later attempted to obtain the names and locations of the cadre members living in the hamlet, but the hamlet inhabitants refused to provide the information. By repulsing the enemy and living in the hamlet, the pacification cadre had gained the confidence of the people who, in turn, rejected attempted Viet Cong overtures.

Status of National Priority Areas During May

3. National Priority Area I. The pacification effort in the National Priority Area (NPA) around Da Nang in Quang Nam Province unfortunately paralleled the general lack of progress in the rest of I Corps. Morale in a five-village special project area was reported at an all-time low because of the removal of US and ARVN units that had been providing security for the villagers. Consequently, the Viet Cong were able to terrorize and proselytize among the villagers, reminding them that the government had promised to defend the community against enemy infiltration and terrorism. The over-all program in NPA I is considered to be at least five months behind schedule.

4. National Priority Area II. Revolutionary development projects in the NPA in Binh Dinh Province are on schedule, and it appears at this juncture that the 1966 goals may be accomplished. During May, 14 hamlets were considered to have met the criteria for being "secured," and the cadre teams that had been working in them were deployed to 14 new hamlets within the NPA. In addition to the regular government military forces now in the area, three Regional Force companies and ten Popular Force platoons have been undergoing training to enable them to provide continuing village and hamlet security. The prospect for the recruitment of additional security forces is considered good.

5. In the meantime, ARVN, US, and Korean troops are conducting clearing operations with the aim of providing adequate security for the various groups carrying out the specialized functions of pacification. Adequate supplies and movement of consumer goods in the NPA are indicative of an excellent over-all economic situation in the II Corps NPA.

6. National Priority Area III. In general, revolutionary development programs in the Saigon and Gia Dinh Province area as well as in portions of four surrounding provinces progressed satisfactorily except for the construction and consolidation of hamlets. Three of the five provinces in the NPA reported improvements in the morale and effectiveness

of the Regional and Popular Force security units. Security for pacification cadres was also improved through an increase in GVN and free world military operations. The number and intensity of Viet Cong incidents reportedly decreased.

7. National Priority Area IV. Pacification projects in An Giang Province continued on or ahead of schedule. Two Regional Force companies, drawn from the Hoa Hao religious sect that predominates in the province, were formed. The initial goals for school construction and selfhelp projects were met or, in some cases, exceeded. Assistance to An Giang's ambitious agricultural program was augmented by the arrival of seven Chinese technicians. The prospect at the end of May for the achievement of the province's 1966 revolutionary development goals continued to be excellent.

Viet Cong Defectors (Chieu Hoi)

8. The Communist defector total for the week ending 17 June was up slightly to 373, with I Corps reporting its totals for the second straight week. The increase apparently reflected heavier military contact. Of some 226 military defectors, three were North Vietnamese officers and one was a district finance cadre.

9. According to US Mission officials, the overall reduction in the rate of Viet Cong defections to the GVN since mid-April of this year is due to several factors. The primary cause is probably the unstable political situation, especially in I Corps. However, with the reassertion of GVN control in Hue during the weekend of 18-19 June, this problem seems to be largely resolved for the time being. Another major influence on the defection rate is the number and intensity of military contacts between Viet Cong and friendly forces. Such contacts declined during the period from mid-January through mid-April. It appears that numerous and intensive military engagements not only provide potential ralliers with opportunities to defect, but also intensify the fears that often motivate defections. It has also been determined through debriefings that potential ralliers tend to avoid committing themselves until they feel assured the government will fulfill its promises of safety and good treatment.

10. During the period of diminished military contacts and political turbulence, the Viet Cong political cadre were themselves attempting to cut down their losses from defections. Captured documents and rallier debriefings have revealed that the penalties for an unsuccessful defection attempt, and even for reading air-dropped Chieu Hoi leaflets, are now more severe than in the past. Surveillance of Viet Cong troops by politically reliable cadres has also apparently been increased.

11. A more subtle factor influencing the Chieu Hoi program, according to the US Mission, has been the attitude of the minister of information and Chieu Hoi, Dinh Trinh Chinh. A conflict between Chinh and his assistant for Chieu Hoi affairs has apparently had a deleterious effect on lower-level working cadres in the districts. Chinh's performance has also been affected by persistent reports that he may be removed from office. He is apparently now marked for early replacement by Premier Ky in a general cabinet reshuffle.

12. To cope with the problems affecting the defector rate, government planners are instituting several measures. An additional 45 advisory positions to be filled by third-country personnel have been allocated, primarily for work in the provinces. An intensified information campaign is being planned for the week preceding the anniversary of the Geneva accords on 20 July. Psychological exploitation of the Chieu Hoi program will be the subject of increasing attention from GVN and US agencies. Finally, planners are forging ahead with the construction of a regional Chieu Hoi center in each of the four corps areas.

13. If the political situation continues to stabilize, and if military engagements remain at the intensified level of the past week, the number of defectors should continue to rise.

III. THE ECONOMIC SITUATION

The week was highlighted by the announcement on 18 June of a 50-percent devaluation of the piaster, an increase in government salaries, stabilization of rice prices, liberalization of economic regulations, and the free sale of gold. These major economic reforms were recommended by the International Monetary Fund to combat the inflationary spiral. Following the announcement, the price of gold and dollars declined, but the prices of both domestic and imported commodities rose.

It is reported that the decline in deliveries of rice from the delta to Saigon stems from a decrease in production, VC taxation of and interference with rice movements, hoarding by merchants and peasants, and illegal shipments to Cambodia. The movement of cargo through transit warehouses at the port of Saigon accelerated during the first half of June.

GVN Economic Reforms

1. On 18 June, Minister of Economy Thanh announced a 50-percent devaluation of the piaster, an increase in government salaries, stabilization of rice prices, the free sale of gold, and liberalization of economic regulations. These major economic reforms were recommended by the International Monetary Fund in order to combat the inflationary spiral in South Vietnam. Thanh noted that without such measures, prices would continue to rise to a point where the piaster would become worthless.

2. The Exchange Rate. Effective 18 June, the exchange rate was raised from 60 to 118 piasters to US \$1, and the former multiple rate system was abolished. The new exchange consists of a basic rate of 80 piasters plus a surtax of 38 piasters. Imports for which license applications were issued by the National Bank prior to 18 June, but which have not yet been cleared through customs, will be

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subject to an exchange rate equalization tax of 58 piasters to US \$1 to be added to the former rate of 60 piasters to US \$1. In order to get importers to clear their goods through customs rapidly, the goods withdrawn from customs by 4 July will be subject to an exchange rate equalization tax of only 30 piasters to US \$1, i.e., these goods will receive a 23-percent discount. Customs duties still will be calculated at the old rate of 35 piasters to US \$1, but the tariff schedule will be revised to maintain present collection levels. Transfers for students abroad will be exempt from the surtax, permitting a rate for such transactions of 80 piasters to US \$1.

3. Pay Raises. All government employees--both military and civilian--will receive wage increases ranging from 20 to 30 percent to be effective from 1 June. These increases are 30 percent for those earning less than 5,000 piasters monthly, 25 percent for those earning 5,000 to 10,000 piasters monthly, and 20 percent for those earning more than 10,000 piasters monthly. These pay raises are intended to restore to a more equitable income position the country's fixed salary employees who have suffered most from the inflation.

4. Rice. The GVN will subsidize rice imports to assure a stable low price for this basic commodity. Thanh also noted that the prices of beer, soft drinks, and gasoline would be affected only slightly by the devaluation, and that a "stabilization fund" would be established to permit intervention in the market in cases of sharp price increases for basic commodities. Details on this particular aspect of the economic reform are not yet available. The GVN, however, evidently did agree at the last minute to exempt all PL 480 commodities from the surtax of 38 piasters in order to hold down price increases for these commodities.

5. Gold. The GVN will now sell gold through commercial banks to South Vietnam's 763 authorized jewelers, 281 of whom are in Saigon. Any jeweler may go to any commercial bank and buy three gold bars (of 12 to 13 kilograms each) at a time. Upon presentation of sales documents for the jewelry, they will be able to replenish their stock. The price will be fixed each

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day. The free sale of gold is expected to absorb excess piasters for the GVN and lower the price of gold. The GVN has assured the US that these sales will be made from the GVN's own gold holdings.

6. Liberalization of Regulations. In order to promote competition, the GVN announced the liberalization of many economic regulations that had obstructed economic activity. The prohibition on increasing the number of commercial importers, which had discouraged competition, has been removed and the GVN has now decided to authorize new import firms if they are able to meet certain requirements. In addition, the allocation of foreign exchange by quota points has been ended. Controls in the industrial sector will be relaxed by simplifying administrative regulations and by giving early authorization to industrial project applications. Imports of machinery and raw materials will be facilitated, and the Ministry of Economy will shortly approve ten new industrial projects. The Ministry of Economy and the National Bank will advance a 400 million piaster credit for medium term loans to industry through the Industrial Development Center, a government agency established in 1957 to provide technical and financial assistance to Vietnamese industry.

Rationale For The Reforms

7. Since January 1965, Saigon prices have risen more than 50 percent, and the money supply has expanded by roughly 90 percent. In spite of large-scale US financing of imports, the amount of goods could not keep pace with the money chasing these goods. The immediate effect of the new economic reforms will be to double the amount of piasters and take them out of circulation, resulting in a decline in the money supply. While retail prices of all goods will rise in the short run, these price rises will be partially alleviated by government subsidization of rice and the use of a stabilization fund for other basic commodities.

8. It would appear that the group to be most affected by the new economic measures is the urban middle class, which constitutes the principle market for imported goods. The rural peasant, who buys few imported goods, probably will be least affected. It is hoped that after a period of adjustment of perhaps three months duration, prices will stabilize at a higher level. The

US will provide full support to the GVN during the implementation of these new economic measures through a continued program of large-scale commercial import financing.

Prices

9. Retail prices in Saigon rose significantly in the week ending 13 June. The prices of almost all foodstuffs except vegetables increased, as did the prices of imported commodities. Although the reason for the rise in prices of domestically produced goods was unclear, the increase in prices of imported commodities apparently stemmed from a depletion of inventories. In view of the rumors of devaluation, it also is possible that importers were withholding goods from the market in anticipation of higher prices. Over-all, the USAID retail price index was nine percent above a month ago. (A table of retail prices in Saigon is included in the annex.)

10. Following the announcement of the new economic reforms, prices of both domestic and imported commodities rose. On 21 June, the median increase in the price of US-financed imports was 20 percent above the previous week. The imposition of a higher rate of customs assessment on 4 July reportedly is causing importers to clear their goods through customs rapidly, but they appear to be holding off sales until after 4 July in the hope of realizing higher prices.

11. Exchange rates on the Saigon free market rose sharply just before devaluation was announced, after having declined slightly the previous week. On 13 June, the price per dollar of \$10 dollar bills was 191 piasters, up five piasters from the previous week. The price of \$10 MPC (scrip) rose one piaster to 124 piasters per dollar. Gold jumped to 308 piasters per dollar compared with 289 the previous week. By 16 June, however, the prices of \$10 bills, \$10 MPC, and gold had skyrocketed to 260, 150, and 450 piasters per dollar, respectively. This sharp increase reportedly was triggered by an announcement of the introduction on 27 June of a new 500-piaster note. The announcement gave rise to fears that the present 500-piaster note, many of which are said to be held abroad, would be canceled. In addition, gold supplies apparently were limited by stricter controls.

The mounting inflation, rumors of devaluation, and continuing political uncertainties undoubtedly also contributed to the sharp increases.

12. Following the announcement of the economic reforms, the price of gold and dollars declined. On 21 June, the prices per dollar of \$10 bills, gold, and MPC were 210, 332, and 121 piasters, respectively.

13. As previously reported, rice deliveries from the delta to Saigon during the first four months of 1966 have been lower than during the comparable period of any previous year. The US Mission recently estimated that total deliveries for the year would amount to only 265,000 tons compared with 425,000 tons in 1965 and 505,000 tons in 1964. At the end of April, Saigon and delta rice stocks totaled 154,100 tons, well below April levels of the past few years. Moreover, three fourths of the Saigon stock at the end of April consisted of imported rice. The stock in the delta, which accounted for two fifths of combined delta and Saigon stocks, consists of Vietnamese rice. (Graphics on rice deliveries and rice stocks are included in the annex.)

14. On 12 June, the Ministry of Economy began selling stocks of US rice in Saigon in an effort to stabilize rice prices. This rice is being sold both to retailers and directly to the public from trucks in various districts of the city. The results of the first few days' operation were gratifying from the point of view of both sales and public impact. During the course of the week, rice prices on the open market were stable or declined slightly, depending on the grade. The US Mission reports that, given the present economic atmosphere with the alarming leaps in black market currency and gold rates, the stability of rice prices was encouraging.

15. Two US Mission officers recently visited several provinces in the delta to re-examine the rice situation. In spite of continued low shipments to Saigon, they found substantial amounts of paddy in the provincial mills. Based on extensive interviews and personal observation, the reporting officers concluded that the decline in deliveries to Saigon stems from five major factors: a decline in production, VC taxation and

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interference with rice movements, hoarding by merchants, hoarding by peasants, and illegal shipments to Cambodia. As an additional factor, they cited the difficulty and expense involved in transporting the rice to Saigon, but concluded that this was of less importance.

16. The decline in production during the 1965/66 crop year was caused mainly by the lateness of last summer's rains and a lower level of flooding on the Mekong. VC activity to push up prices and frustrate the movement of rice, while not entirely new, appears to be more significant than it was last year. Moreover, illegal shipments to Cambodia apparently are higher than in previous years.

17. Although most of these factors apply generally throughout the delta, it was observed that their relative importance varied from place to place. The decline in shipments from Chau Doc and An Giang provinces still is attributed officially to a decline in production. However, merchants in Long Xuyen, capital of An Giang Province, mentioned shipments to Cambodia and the rising cost of transportation of the rice to Saigon. In Kien Giang Province, it appears that outsiders are buying rice at high prices, possibly for sale to Cambodia. Merchants and officials in the province also complained about rising transportation costs and VC activities, especially VC taxation. Impediments to deliveries of rice to Saigon from Ba Xuyen Province include hoarding in anticipation of higher prices, VC harassment, and transportation problems. As in Kien Giang Province, bankers and merchants complained of outside buyers purchasing rice at prices well above the market rate.

Port Operations

18. During the period 8-14 June, 24 deep-draft ships, 14 of which were military, completed discharge and departed from Saigon. Commercial importers are making a greater effort to claim imports and, as a result, the movement of cargo through transit warehouses has accelerated. During the first half of June, an average of 1,293 metric tons of cargo per day passed through the port's transit warehouses, compared with only 931 metric tons daily during the last half of May.

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ANNEX

Weekly Retail Prices in Saigon a/

(In Piasters)

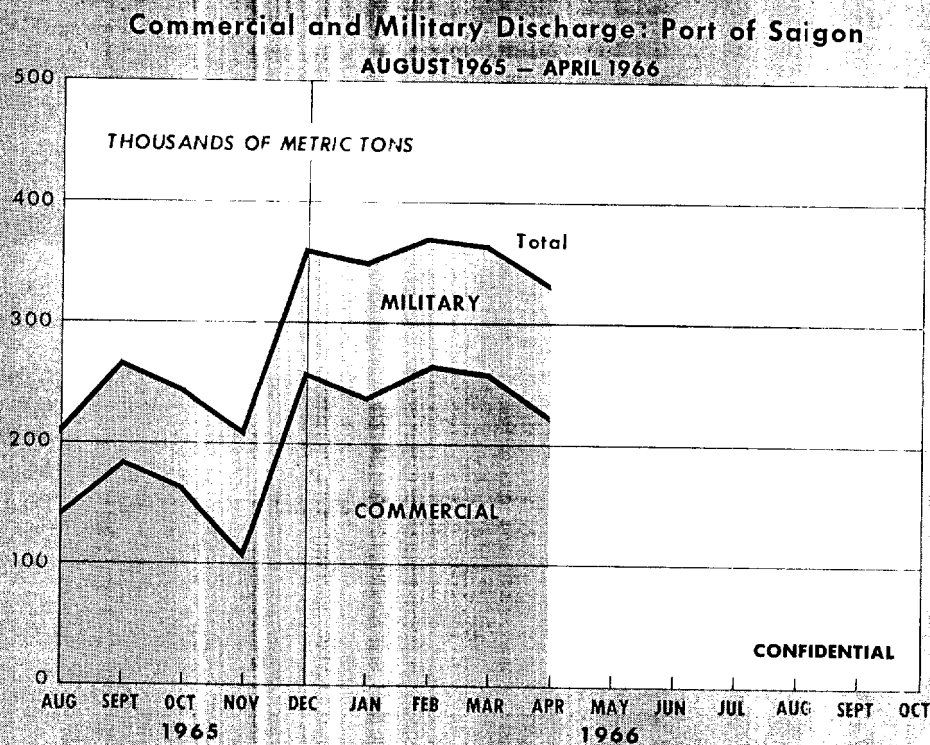
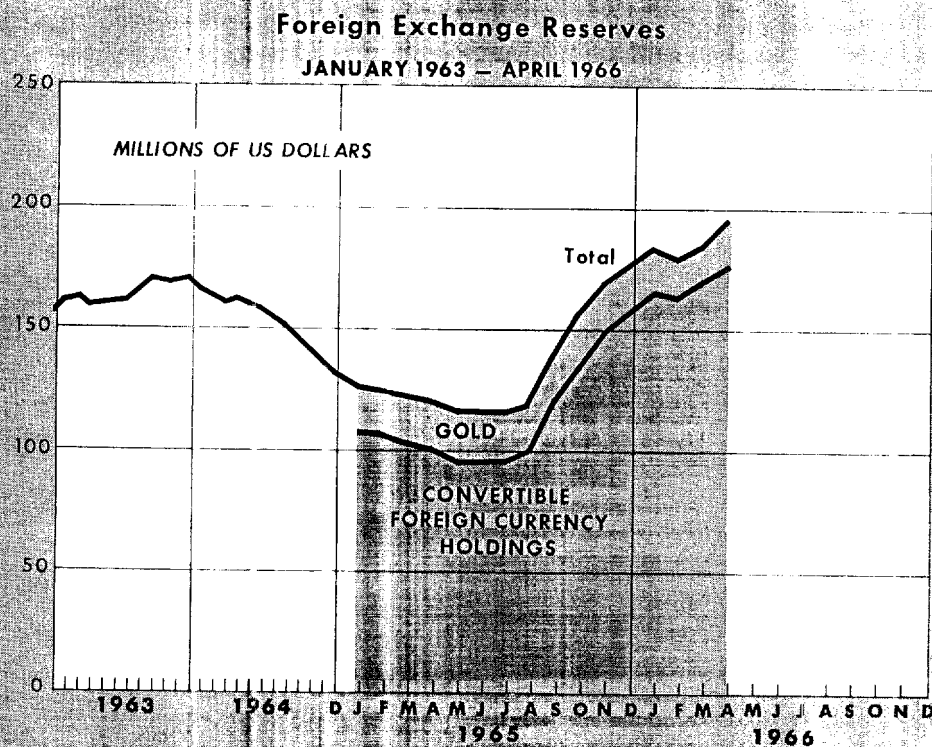
	3 Jan 1966	16 May 1966	23 May 1966	31 May 1966	6 June 1966	Percent Change from Mo. Ago	Percent Change from Yr. Ago
Index for All Items b/	<u>160</u>	<u>158</u>	<u>161</u>	<u>164</u>	<u>162</u>	+ 4	+ 46
Index for Food Items b/	<u>169</u>	<u>166</u>	<u>171</u>	<u>174</u>	<u>171</u>	+ 4	+ 55
Of which:							
Rice/Soc Nau (100 kg.)	800	1,100	1,150	1,150	1,120	+ 2	+ 18
Pork Bellies (1 kg.)	70	70	70	70	70	0	+ 40
Fish/Ca Tre (1 kg.)	110	110	105	110	115	+ 5	+130
Nuoc Mam (jar)	50	70	70	70	70	+ 8	+ 56
Index for Non-Food Items b/	<u>124</u>	<u>126</u>	<u>126</u>	<u>129</u>	<u>130</u>	+ 4	+ 46
Of which:							
Charcoal (60 kg.)	440	450	450	480	490	+ 9	+ 9
Cigarettes (pack)	10	10	10	10	10	0	+ 25
White Calico (meter)	27	27	26	26	26	- 4	+ 5
Laundry Soap (1 kg.)	30	32	32	32	33	+ 3	+ 25

a/ Data are from USAID sources.

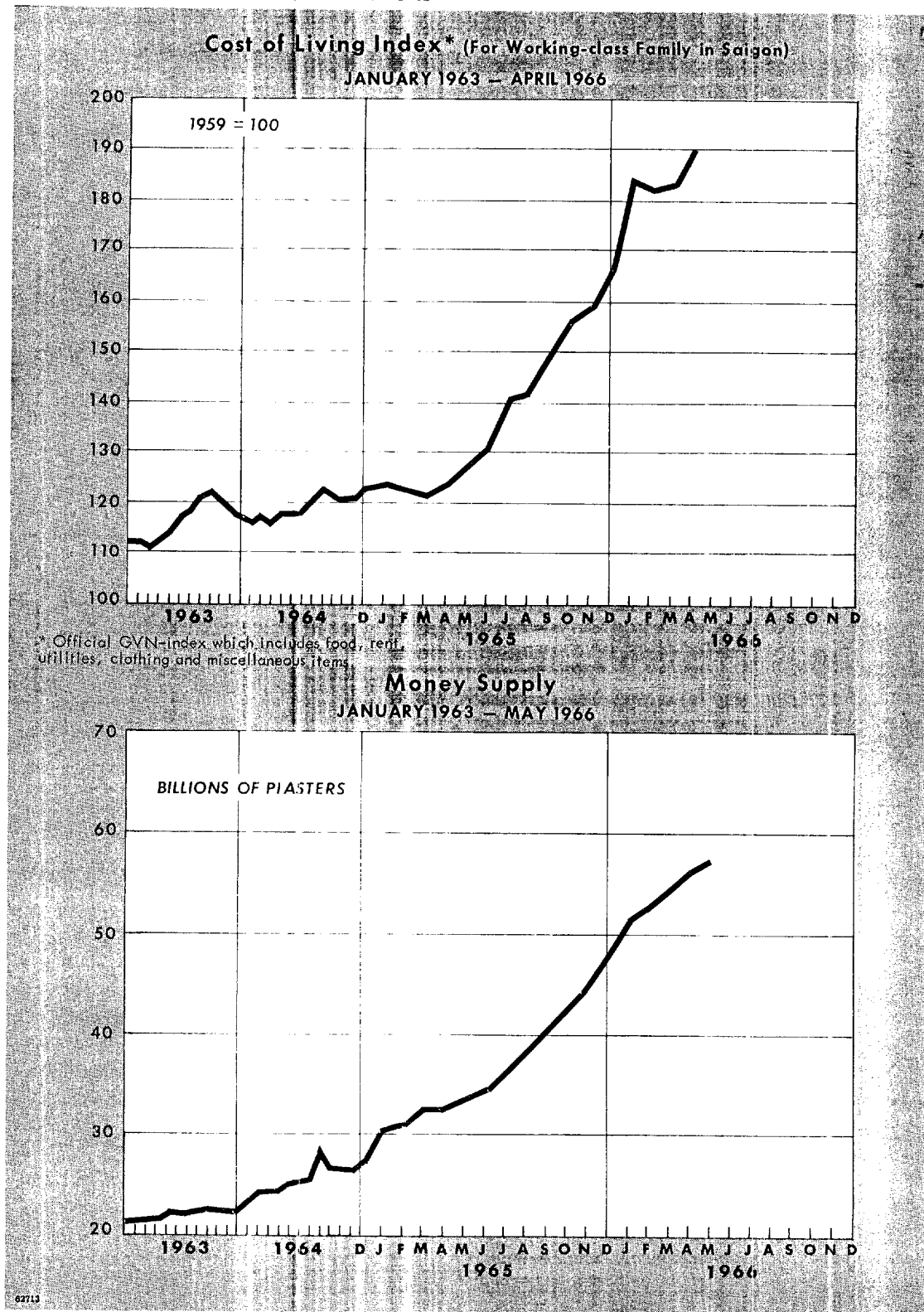
b/ For all indexes, 1 January 1965 = 100.

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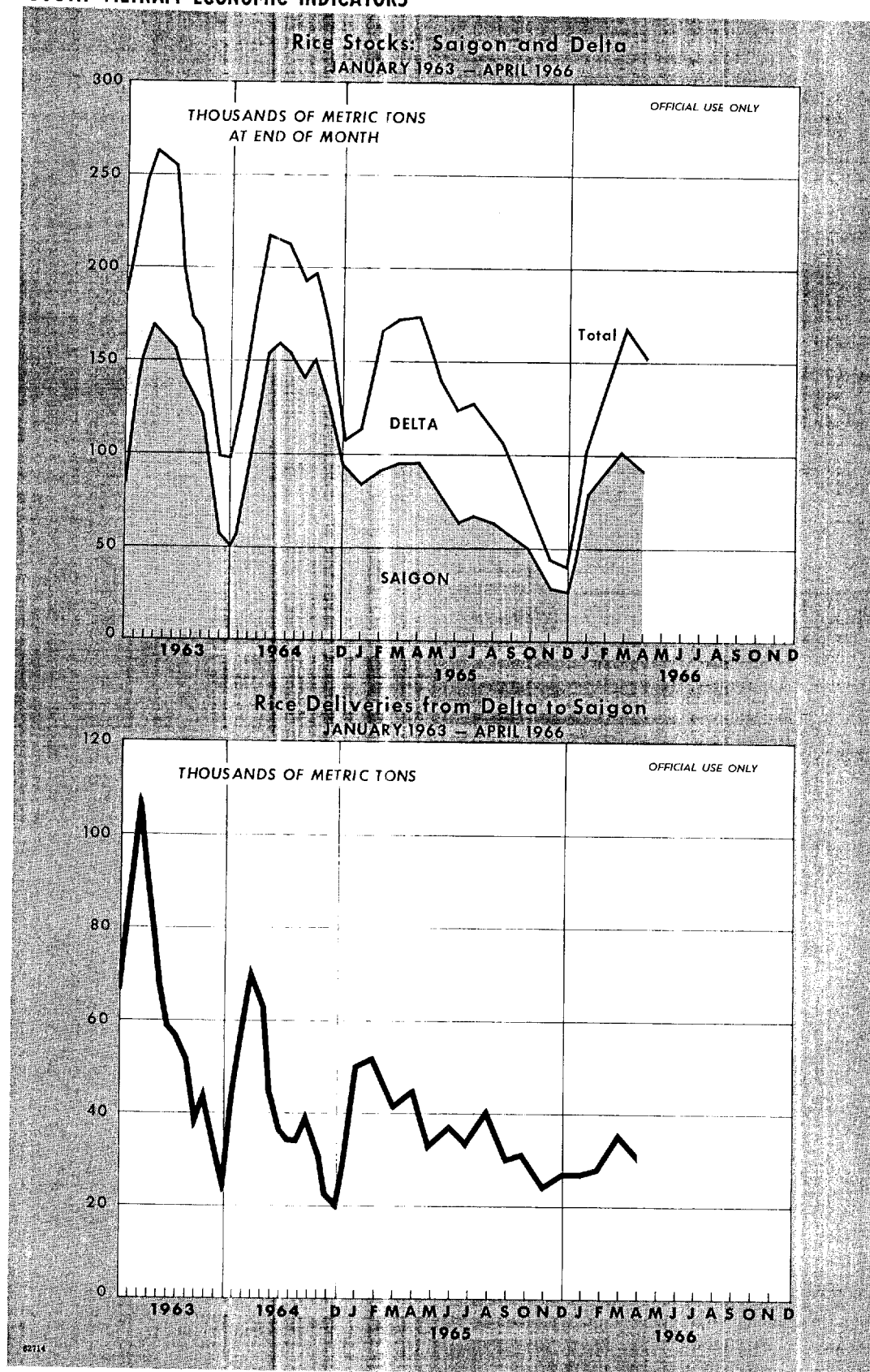
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